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March 17, 2000

To: Eugenia Laychak for Mike Madigan and Sunne McPeak

From: Eric Hasselteine EH

Re: Preferred Program Alternative and BDAC Motion for Approval

The Preferred Program Alternative is the summary statement of our efforts. There are some themes running through the comments of BDAC members that should be addressed and used to modify the motion and/or the Preferred Program Alternative document, or, to provide an explanation of why no changes are recommended. I want to make some comments first on the document and then review the motion.

Water Supply Reliability

I assume that Mike's comments on population growth, with which I totally agree, were meant as a question society must address, which if decided would facilitate BDAC's decision process. The first paragraph of the Preferred Alternative document identifies the improvement of water supply reliability as one of four principal objectives. It follows that the issues affecting water supply and water supply reliability should be set forth, within which would be the necessity of meeting the needs of an expanding population. But this has not been done for this objective as it has been for the other three, viz., ecosystem restoration, water quality and levee stability. This document needs some definite objectives for water supply reliability and needs to address, not ignore, the issue of increased supply explicitly. An explanation of why water supply reliability appears to be divided into five parts, some or all of which apply to other main objectives as well would be very helpful. Frankly, I am at a loss to correlate the watershed management program as written to water supply reliability. Water supply is a critical part of the program, probably the most important to those involved with program financing. We certainly propose to vigorously pursue an ecosystem restoration program, but we also must maximize the amount and optimize the beneficial uses of water passing through the Delta. These efforts must be complementary with the least conflict possible.

There is obvious concern expressed in the BDAC comments for increased water supply. Others emphasize increased reliability, which means, in part, more water than naturally available in dry years, so is a form of increased supply. There are two direct means of increasing water supply: storage of excess waters otherwise lost and desalinization. Improving water use efficiency allows more needs to be satisfied with the same amount of water. It is not actually an increase in supply, but it offsets the increase needed, so it has the same effect and is a recognized important tool.

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Most of us know that storage is an essential part of this program, but the expectations of the benefits differ. I can remember Tom Maddock years ago (time flies) saying, in effect, "It's the yield, Stupid" whenever storage was discussed. His point was that people would not pay for the storage facility unless there is enough extra water produced, or more to the point, there is enough value to the stored water at the time it is taken out, to justify the expense. We also know that water quality improvement is a benefit, and that storage is essential for a workable water transfer program. But, I think that Tom was right in that the decision on storage is an economic one.

With regard to the yield, I asked Stein Buer about that, also years ago, and he produced some yield charts as a function of storage volume. It turns out that storage is not so efficient in producing yield, which does not appear to be widely understood. The problem is when the flood peak goes past the storage intake, there is a very short time in which the water can be diverted into storage. The flow charts we were given with all the peaks and valleys showed only the highest parts of the peaks being cut off and very little of the valleys filled in. There must be ways to optimize this intake process, but if only peak or excess flows can be diverted, a clear definition of such flows is essential.

Desalinization is a solution awaiting technology and economic feasibility. .

Staging

The concept of the phasing of actions (Stage I and Stage II) and the deferred decision making has to be described more fully and clearly. Each stage is mentioned only once in the text, under Storage and Conveyance respectively. Some of the BDAC comments jump to Stage II issues and try to set ground rules. That may be something we want to do in describing how the stages will proceed. But, so far, we have understood that actions which can be taken right away will proceed, especially where funding is identified. Clearly, those actions are primarily oriented to environmental restoration. The measured results (Sunne has always promoted the need for measurable objectives – do we have those here?) of the Stage I actions are to be the basis for the decisions on how Stage II will proceed. This needs to be stated prominently in the document, not just implied in one or two places. Do we need to try to set the rules for interpreting Stage I results now? Is that part of the assurances?

Assurances and Financing

The document says nothing at all about assurances or financing. The importance of these issues should be explained somewhere – it's not just the plan that is important, it's the implementation as well. An unaffordable plan in which there is no confidence is no plan at all. We need to set forth a plan which we believe can succeed and such belief will be based in large part on credible methods of financing and assurances. The documentation already produced on each of these topics is extensive and it seems not to be productive to try to review all of that here. But, the Preferred Program Alternative needs to address these issues and reference the work in some way.

I am very concerned about both of these issues, but I only know something about finance. We have always embraced the beneficiary pays approach, but the degree of benefit to each beneficiary and the value of the benefit are very difficult and undoubtedly contentious to determine. To simplify this task, Sunne proposed a method of consensus value judgement and a corresponding assignment of costs to the beneficiaries. This is a simplified means of setting forth a cost allocation methodology for the ultimate negotiation amongst shareholders of who can and will pay how much for whatever benefits are received. The key questions are: How much do users pay for the ecosystem restoration? and, how much does the public pay for storage? There was also the baseline issue that we could never avoid, but I think that the decision has been made to not establish a baseline, with which I concur, and I assume that still holds.

The long range funding approach should be worked out as part of Stage I. The fact is that there is ample public money committed at this point for the Stage I program which is primarily the ecosystem restoration, and there are existing revenues from other sources to supplement that. This allows us to implement the deferred decision strategy. As noted, there is opposition to the studies needed in Stage I, or at least the financing of those studies. We had hoped that this might be overcome through a requirement for a payback of the monies expended for such studies by the beneficiaries when and if the facilities are built. The status of this issue should be examined. I believe that this suggestion is a fair and reasonable way to settle this.

Linkage

One of the key concepts to emerge from this program is that of linkage between components. The linkage of storage and water use efficiency has raised some questions. Our position has always been that storage and conveyance facilities would be paid for by those receiving the water from such facilities. Increasing that cost by requiring water use efficiency targets to be met before users would be allowed to buy in to the storage may seem counter-productive. On the other hand, water use efficiency is needed. Practices will be set forth and implemented as part of the program. For the program to work, all components of the program must work, if not in close association, then at least concurrently. Everyone involved has to participate. Maybe we don't have to specifically tie this to storage, but those willing to invest in storage need water, so water use efficiency would seem to be a natural for them. The concern may be that unreasonable or unattainable targets could be imposed that would interfere with the ability of those who paid for the storage to receive its benefits. That would be very objectionable. This point needs clarification.

Storage and Conveyance

Both the issues of conveyance and storage need detailed study during Stage I. Some do not want these studies included under Stage I because Stage I will be financed primarily with public money, but the studies are an insurance policy for the entire program. The alternative is to make all the decisions now with inadequate information which would doom the program. There is also an obvious and legitimate concern expressed in the

BDAC comments that the analyses be completely objective and that the methods be established publicly in advance. No one is going to be happy with some stealth report on either of these issues.

Preamble

Alex has suggested a rather lengthy preamble as a means of defining the process of implementation and setting forth a commitment to compliance. He is very concerned with conveyance and water supply. As noted above, I agree that these issues need more work. I do not think that the Preamble approach is the best way to do that, but it is the substance not the style that is important. A Preamble to me is more a statement of what the document is, maybe why the Program is needed. It is not the place to discuss issues, but it may be the proper place for a statement of commitment to the Program. I think that we should try to define the necessary and appropriate actions in each category and to make sure that all of the important issues are covered.

Motion

I have maneuvered myself into proposing amendments to the document, which I think are important, but which may be addressed in an alternative manner of which I am unaware. I know that these issues are part of what I call the Program, so I am very puzzled as to why they are not in this Program description. I accept that there may be a good reason, in which case my comments may be moot.

1. The document should have a section entitled "WATER SUPPLY RELIABILITY" stating the objectives and problems and explaining how the actions are grouped into sub-categories.
2. The issue of any potential increased supply from the various program components should be discussed. If this is not going to be a priority or if there is not going be any new supply, we need to say so. If there is, the conditions under which that might occur should be given, or else the analysis of this issue should be designated as a Stage I component.
3. We need a statement about the Stage I process and what decisions are reserved for Stage II. Presently, Stage I is mentioned once under Storage and Stage II once under Conveyance.
4. Statements on Assurances and Finances are needed.
5. It would help if wherever a specific linkage is required by the Program, there is a brief rationale given, or else an introductory statement about the need for linkages in general.

As for the motion itself, it should include the foregoing five recommendations plus the original bullet items in the motion, and including the third proposed additional bullet regarding needs. The first additional bullet regarding conveyance should be combined with the fourth original bullet and the second additional bullet is covered by the second recommendation above.